HoyleCohen
WEALTH MANAGEMENT

SOCIAL SECURITY & YOU

a three-part series

Robert Carnegie, CFP® / Senior Wealth Advisor
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Social Security, much like Medicare, is a program that most Americans will access at some point in their lives and, unfortunately, can be terribly confusing. To clarify some of the main ideas and questions about Social Security we have outlined this three-part series which will cover these topics:

1. **Making sense of Social Security & your statement**
2. **Common questions about individual social security benefits**
3. **Key questions surrounding spousal/survivor benefits & optimization strategies for couples**

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PART 2

Individual Benefits

- When should I claim SS benefits?
- What are the trade-offs for claiming early?
- When does it make sense to delay?
- How can I increase my benefit amount?
- Can I claim SS if I am still working?
- How does my decision to claim benefits affect others?

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When should I claim my benefit?

Bypassing the "Will social security even still be around?" question since we addressed it in part one, we will focus on the differences between claiming Social Security at your full retirement age (FRA), before FRA, or after FRA. You are entitled to 100% of your benefit at FRA, which based on your birth date will be between ages 66 and 67. However, **if you decide to claim before your FRA or after, formulas are applied to calculate either a reduction in benefit or enhancement.**

Should you decide to claim benefits prior to reaching FRA (as early as age 62), your benefit would decrease by approximately 6.7% for every year you claim early, up to first three years, and then 5% for every additional year. On the contrary, for every year you delay beyond your FRA (as late as age 70), your benefit would increase by approximately 8% per year.

To clarify the above, we provide a quick example. Please note that for simplicity the illustration ignores other things that could affect your benefit amount such as additional years of earnings or inflation adjustments.

Age	62	63	64	65	66	67 (FRA)	68	69	70
% Change	-5%	-5%	-6.7%	-6.7%	-6.7%	-	+8%	+8%	+8%
% Cumulative Change	-30%	-25%	-20%	-13.4%	-6.7%	-	+8%	+16%	+24%
Estimated Benefit	$2,100	$2,250	$2,400	$2,600	$2,800	$3,000	$3,240	$3,480	$ 3,720

Note: Estimates on your statement will not match this formula exactly due to your birth date and other built-in assumptions.

As you can see, the cumulative decrease and/or increase can be substantial. Hence, without factoring in how your decision may impact others (i.e. spouse, survivors, etc.), which we will address shortly, it is often wise to delay collecting Social Security:

- If you can afford to, meaning you have other income to make it comfortably to age 70 without Social Security.
- If you have reasonable expectations of living beyond your average life expectancy.

Sacrificing an earlier income stream in favor of higher payments at age 70 typically works out in your favor, meaning you accumulate more benefits overall, if you live beyond your early 80s. Every personal family history and health situation is different, but statistics, modern medicine, and perhaps some positive thinking give each of us a fairly good chance of living that long. Furthermore, for every year you should survive beyond that "breakeven" point, typically between ages 81-82, the choice to delay becomes even more valuable.

When does it make sense to delay?

Generally, **delaying Social Security works best when life expectancies are long, inflation is high, and expected returns on other assets are low.** People are generally living longer lives, inflation is the highest we have seen in decades, and financial markets had a rough go of it in 2022. Thus, though this decision depends much more on personal circumstances, the current environment favors delaying Social Security benefits.

When in doubt, however, you may want to wait six months. You have a bit of a grace period since you can retroactively claim benefits for up to six months prior, and while you could withdraw a benefit election within 12 months of doing so, it requires repayment of all benefits received, including spousal benefits, which can be a painful process (see pt. 1).

How can I increase my benefit amount?

Other than delaying benefits, your benefit can increase if you work longer, **replacing early lower-income years with higher-income years,** and it will likely increase on an annual basis via COLAs (cost-of-living-adjustments, aka inflation adjustments).

If I'm still working, can I still claim Social Security?

Yes, however, when claiming prior to FRA, an earnings test is applied that could reduce benefits. **If you are still earning income prior to FRA, it often makes sense to wait** until your FRA to claim benefits to avoid a reduction based on other income.

How does my decision to claim benefits early or late impact others?

While the timing of your own claim does not impact spousal benefit **amounts**, it does impact **when** your spouse can claim and also how much survivors (spouse and minor children) would receive upon your death. We will demystify those rules in Part 3 and talk about how to weigh the tradeoffs and make the best decisions for you and your family.

Understanding an individual's options around when to claim Social Security is relatively straightforward:

- Do you need the income and/or are you unconcerned about an above average life expectancy (claim early or at FRA)
- Do you desire the strongest longevity insurance (delay)

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